

Wisconsin Department of Public Instruction, Financial Services Team WISCONSIN PUBLIC SCHOOL DISTRICT AUDIT MANUAL

INTERNAL CONTROL

Statement of Auditing Standard (SAS) No. 55 *Consideration of Internal Control in a Financial Statement Audit*, SAS No. 94 *The Effect of Information Technology on the Auditor's Consideration of Internal Control In a Financial Statement Audit*, and SAS 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment of SAS No. 55*

SAS No. 55 as amended requires the auditors to gain an understanding of internal control sufficient to plan the audit, assess control risk, and perform tests of control. These procedures must be adequately documented in the audit work papers.

SAS No. 78. Internal controls consist of five interrelated components applicable to every organization (school district) regardless of size:

1. Control environment
2. Risk assessment
3. Information and Communication
4. Monitoring
5. Control Activities

SAS No. 94 requires auditors to “obtain an understanding of each of the five components of internal control sufficient to plan the audit...by performing procedures to understand the design of controls relevant to an audit of financial statements, and determining whether they have been placed in operation.”

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and OMB Circular A-133 *Compliance Supplement*

OMB Circular A-133 requires additional consideration of internal control regardless of the assessed level of control risk. Assessing control risk at the maximum for efficiency purposes will not decrease the tests of controls required by a Single Audit. OMB Circular A-133 requires the auditor to gain an understanding, document, plan, and test internal control to support a low assessed level of control risk from major programs.

The OMB Circular A-133 Compliance Supplement, part 6, provides examples of internal control characteristics for each of the 14 compliance requirements by component (control environment, risk assessment, information and communication, monitoring, and control activities) to be used in planning and performing the audit.